

DEFINING MARKETING AND EVALUATING MARKETING PERFORMANCE*

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One of the things left out of all this professorial talk about "Economic Production," and you may have noticed it, is that the word "Marketing" didn't come up. It would be reasonable to suppose that the question might have occurred to you: "If this economic production is so all-inclusive that nothing is left out, then where does marketing come into the thing at all?"

I suppose the answer depends on who you talk to and what his viewpoints are. There are three that I can think of. To an economist who is proud of the purity of his discipline, marketing doesn't come up at all. To him, there is no such thing as "Marketing." But this is not a very helpful viewpoint to people who are not economists. There is an American Marketing Association, you know, and in universities there are whole departments where people do nothing but think about marketing, teach marketing classes, and do marketing research. These people hold a more helpful view, more helpful at least to themselves and what they do than the economist would concede. They maintain that "Economic Production" is divided into two phases:

Manufacturing

Marketing

By Manufacturing they mean that aspect of economic production which has to do with the creation of Form Utility. This leaves Marketing with the business of creating Time, Place, and Possession Utility (Figure 13). This means, in this view, that the entire transportation industry, for example, is a part of marketing because it is devoted almost exclusively to the business of creating Place Utility. And it

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puts the entire storage and warehousing industry, from apples to bonded rye, squarely in the marketing camp, because storage creates Time Utility. Moreover, since Possession Utility has to do with terms of trade, contractual arrangements, the means of control of production, the title to goods and services, this view includes a whole web of social institutions, like law and finance, within the jurisdiction of marketing. So, in this second view, Marketing occupies a very significant place indeed in the overall matter of Economic Production.

Both the first and second viewpoints are rather academic. They are discipline-oriented, they are concerned about the academic purity of their subject and devoted to patrolling every foot of their disciplinary borderlines. When marketing people talk about marketing, for example, they exclude entirely any discussion of manufacturing.

There is a third viewpoint. From this final vantage point all this concern about disciplinary borders and academic purity is a little distressing because it seems to miss the point. That is because this third view, which is held by most people engaged in business and commerce, farming and ranching included, and by most members of faculties in Colleges of Agriculture, is that the value of information lies not in its source but in the use which can be made of it. One doesn't make problems fit the information; one makes information fit the problems, sifting, sorting, and crossing any academic boundaries that are necessary in order to get the problem solved.

This is the way an Agricultural Economist spends his time. He is such a cross-breed and trespasser in the academic community that

the purebreds lavish on him that sort of disdain that is customarily reserved for mongrel strays. This third view also springs from a certain focus, but it is not firmly disciplinary focus. It comes from a focus on an agricultural clientele. Teachers face classrooms filled with students from farms and ranches. Extension people work with an agricultural audience. These people do not care about fine distinctions between manufacturing and marketing. What they care about is what the consumer spent for meat and what the farmer got paid for livestock and the vast gulf of difference in between. How do you account for that difference, if you can? That is what the audience wants to know.

So the third viewpoint is concerned about solving problems between the consumers kitchen and the ranchers front gate. To the extent that those problems may be related to the creation of utility, and the allocation of and payment for scarce resources, it calls that problem area Marketing. (This disturbs the first two viewpoints, which like to regard the third-view advocate as to ill-trained even to properly define the subject. One says the boob is calling economic production marketing and the other says hell it ain't marketing - he's got manufacturing in it.)

Utility Creation

Now if you'll look back at Figure 13 you can see that all this inter-mural squabbling on the campus really doesn't make all that much difference. Whoever defines it, and wherever they set the boundaries, all of them are talking about Figure 13. The first viewpoint takes it all and calls it Economic Production. The second viewpoint carves out

the biggest piece of it for itself, to give itself an identity and calls it Marketing. The third viewpoint includes it all again and doesn't much care what you call it, just so it helps to solve the problem.

Where Does Marketing Begin and End?

The conventional view is that marketing begins with production and ends with consumption and usually encompasses some satisfying attitudes as well; that North American farmers and ranchers are the salt of the earth, that they do the best job in the world of producing food and fiber, and that a bunch of necessary parasites distribute these goods to alot of Eastern consumers who ought to be glad to get them. This is not an entirely unreasonable viewpoint. But it has two things wrong with it. It is inaccurate and it is incomplete. It is inaccurate because consumers buy a package of utilities and farmers and ranchers didn't produce the whole package. They didn't transport it very far; they didn't process it or grade it or store it or merchandise it or display it or finance it or bear any risk after they sold their own contribution to the final product. Somebody else had alot to do with creating a package that fussy housewives would buy at the other side of a continent. It is incomplete because it never even mentions the whole business of allocating and paying for scarce production resources all along the way. And it is inaccurate about where the whole thing begins.

Suppose we had at our disposal a pair of binoculars and a girls dormitory. The enviable fellow with the binoculars could maybe give us quite a descriptive play-by-play, like that sailor did in Mr. Roberts.

And suppose I could get everybody's attention at such a moment and ask the man with the binoculars how it is that he could see so many things with his binoculars. He might have just the briefest moment to make some remark about his eyes and how the prisms magnified an image; that the whole business began with his vision which, enhanced by the prisms, enabled him to see a distant image.

Just like marketing, right?

Wrong. Just like the conventional view of marketing.

Let's come back after lights-out tonight and do the whole thing over again with an overcast sky to hide the moon. Very disappointing. Neither the eyes nor the binoculars are worth a hoot.

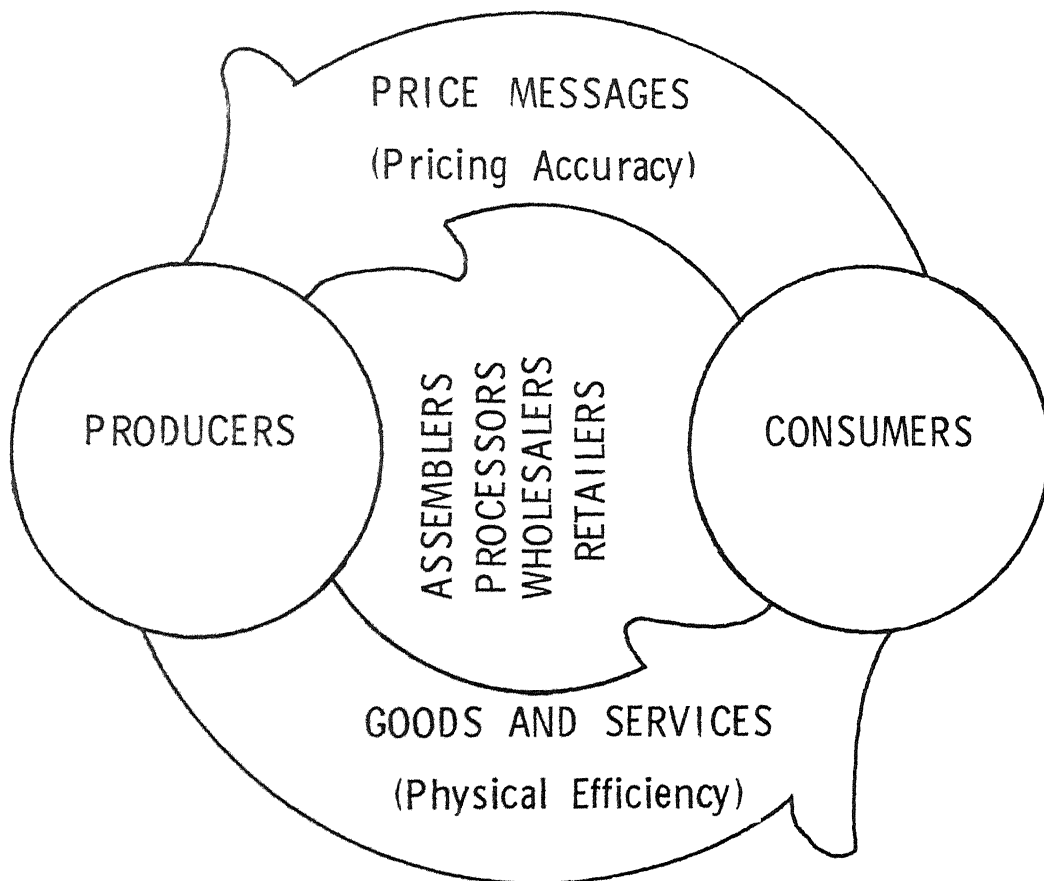
So girl-watching doesn't begin with eyes and marketing doesn't begin with production. The light entering the binoculars was never mentioned but it made all the difference, and the conventionally forgotten aspect of marketing is the part that makes all the difference too.

Production is not done for home consumption any more, and neither is it intentionally done for fun. It is done because someone thinks his prospects for getting paid, with profit, are good enough to warrant all the work. Now where did he get that idea?

From marketing, that's where. That's the side of marketing that seldom gets mentioned, and that seems to be the side that makes all the difference and sets the show in motion, like sunlight in the binoculars.

Figure 14 provides an illustration.

FIGURE 14



Measuring Marketing Performance

Marketing is rather a circular flow of activity. Price messages move from consumers and retailers back through the marketing system and reach producers with an information content that influences producers in their allocation of production resources. The production of raw farm products that comes forth is a supply response to the apparent demand picture that was presented at the time the production decisions had to be made. A stream of product supplies flows back through the many assemblers, processors, wholesalers and retailers to the consumer.

Now all this is very fine for talking about the big picture, but like they say, things don't always happen the way you find them in books. A thousand things can go wrong with this pretty picture, and they do so every day. For one thing, consumers aren't all that sharp. They don't buy food carefully; they buy it habitually; they take it for granted; they don't plan, and they are whimsical and frivolous. They change their minds and they operate on attitudes and beliefs that may not be factually correct. Will Rogers once said "The trouble is not so much what folks don't know as what they do know that isn't so." People are like that. And these are the people who start the price messages down the marketing pipeline. So things can go wrong right at the start.

Then, even if retailers manage to get all the conflicting consumer messages sorted out and reasonably static-free, and it is their business to do this if they expect to survive, they have to convey a message of product worth minus a retail margin to wholesalers, purveyors and processors. Retailers' costs are wholesalers' income.

And the wholesale trade also subtracts out a thin, competitive margin and conveys back to assemblers a price that becomes the income statement among those who face producers every day. Obviously, there are opportunities for error here. Multitudes of them, and it is evident that the maintenance of keen competition in the marketing channel is of paramount public concern. A lack of competition, history shows, is almost invariably associated with padded operating margins and handsome profit levels.

Moreover, each marketing segment not only conveys price messages but handles the physical product as well, moving it toward the consumer. A whole new dimension of possible errors is introduced here. Poor physical performance means physical waste: spoilage, low input-output ratios (output per unit of labor, say, or invested capital), pilferage, wrong products offered consumers because a price message carried errors in its transmission or reception.

Marketing inefficiency costs money. Consumers pay higher prices or spurn wrong products already produced. Producers receive lower prices than they otherwise might if things didn't cost so much between the ranch gate and the household kitchen. These costs can't be counterbalanced simply by offering less services because that is equivalent to offering wrong products to consumers. (If, in order to raise producer shares of consumer prices, consumers were offered fresh green beans and the opportunity to clean and string them themselves, so many of them would quit eating green beans that the market for bean producers would be severely crippled.) Nor can marketing costs be cut, as some have suggested, by lowering wage

scales to labor in the marketing channel. The labor would drift to other, better-paying jobs. (Besides, the labor force in agricultural marketing is gigantic, and these people are consumers as well as labor; reducing their wages reduces their ability to buy.)

Hence, efficiency in marketing is essential. Evaluating marketing performance is essentially measuring marketing efficiency. Most marketing research is the measurement of efficiency and the search for better ways. There are two broad areas of efficiency to consider:

Operational Efficiency: This is physical efficiency. This kind of performance testing measures operating costs or maybe uses computer models to do cost simulation studies. The object is to determine lowest practical costs per unit of output. Costs usually decline as volume reaches some optimum percentage of total plant capacity for a given operation, and begin to rise again as volume approaches capacity or exceeds design capacity. Low costs are also associated with such things as modern technology, proper plant location (raw materials, utilities, labor, markets, etc.), optimum design capacity and, most of all, a management ability sharp enough to take a cold hard look at what their purpose in business is and how to get on with it.

One of the things that physical efficiency studies frequently find is that there are too many small competitors; that none of them has sufficient volume to operate at the lowest optimal cost (design capacity is too small); that management levels in proprietary operations are marginal and uneven and that, once having fallen behind, they lack the income to modernize, expand, and catch up. Proprietary firms

frequently are those that paid off their mortgages and indebtedness long ago and cashing out their business by continuing to run as long as they can pay the help and the utility bills. The owners are usually solvent, even if the business isn't, they are often elderly, they do not care about the continued life of the business, they are not innovative, and operating efficiency is poor. But this is not particularly costly, because these businesses are not paying their way. They have no depreciation accounts or other fixed costs. They are on their way out of business.

What is costly is replacing them and what is usually required to replace them is a very large, very modern business with volume sufficient to keep unit costs low. Although these firms make mistakes, too, the best operating efficiency usually is found in operations like these. Frequently, in fact, operating efficiency studies find that the best results would be realized by having a few, large, modern, well located establishments.

Pricing Accuracy: The other dimension of efficiency is pricing efficiency, the accuracy with which pricing messages call forth the desired production and pay it what it's worth. In the course of normal competitive activity, optimum pricing efficiency usually is found to be associated with intensely competitive markets filled with many small, powerless participants, struggling against each other and nickeling and diming each other to death. The trading floors of stock markets and commodity exchanges provide a graphic example. The price message that comes out of this can be fairly counted on to be clear and correct and not too many people have difficulty understanding what it means.

The physical aspect of many, small livestock markets is also a fairly good example of the kind of competitive arrangement that yields respectable pricing accuracy. If they have some common standard they all can understand, like effective grades and widespread market news reported by some referee, they do an effective job of price communication. But these markets are going out of business and that essential competitive configuration is going with them. They are being replaced by larger, newer, sharper outfits that are pretty good on physical efficiency but often somewhat slow to share their pricing knowledge with others they encounter in the marketplace. Pricing accuracy leaves something to be desired.

So there is a paradox. Efficiency is a desirable performance attribute. But there are two dimensions of efficiency - pricing accuracy and physical efficiency - and these two dimensions can be in conflict.

Public policy usually strives to find a way to have the best of both. Two approaches seem to prevail in the United States and Canada. While both countries encourage optimum physical efficiency even at some threat to pricing efficiency, a desirable level of pricing performance is sought (1) in the United States by a widespread public dissemination of market information (prices, grades, market conditions, etc.) that is important to every trade so that both buyers and sellers are more equally informed when they confront each other, and (2) in Canada by an emerging system of Marketing Boards wherein market conditions and prices are publicly determined. Which method is chosen is usually determined by the interests and preferences and active participation of those to be affected.

Tomorrow I would like to discuss Carcass Weight and Grade Pricing as an illustration of the issues involved in weighing the advantages and disadvantages of a trade-off between physical efficiency and pricing accuracy.